

October 2004
DISABILITY INSURANCE (DI) FUND FORECAST

Introduction

This report provides a status of the DI Fund and includes information on the current and projected fund balance, receipts, disbursements, and contribution rates.

The DI program provides benefits to workers who are unable to work due to non-work related illness, injury, or pregnancy. California, Rhode Island, New Jersey, New York, Hawaii, plus the Commonwealth of Puerto Rico, are the only states and territories that provide DI for their work force.

This projection of the DI Fund balance is improved compared to the May 2004 projection. A DI Fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is generally considered adequate or a reasonable benchmark to maintain solvency through typical fluctuations in contributions and disbursements. The 2003 year-end DI fund balance was \$593.0 million, representing a DI Fund adequacy ratio of 18 percent. The projected 2004 year-end fund balance is \$1.4 billion, representing a DI Fund adequacy ratio of 38 percent.

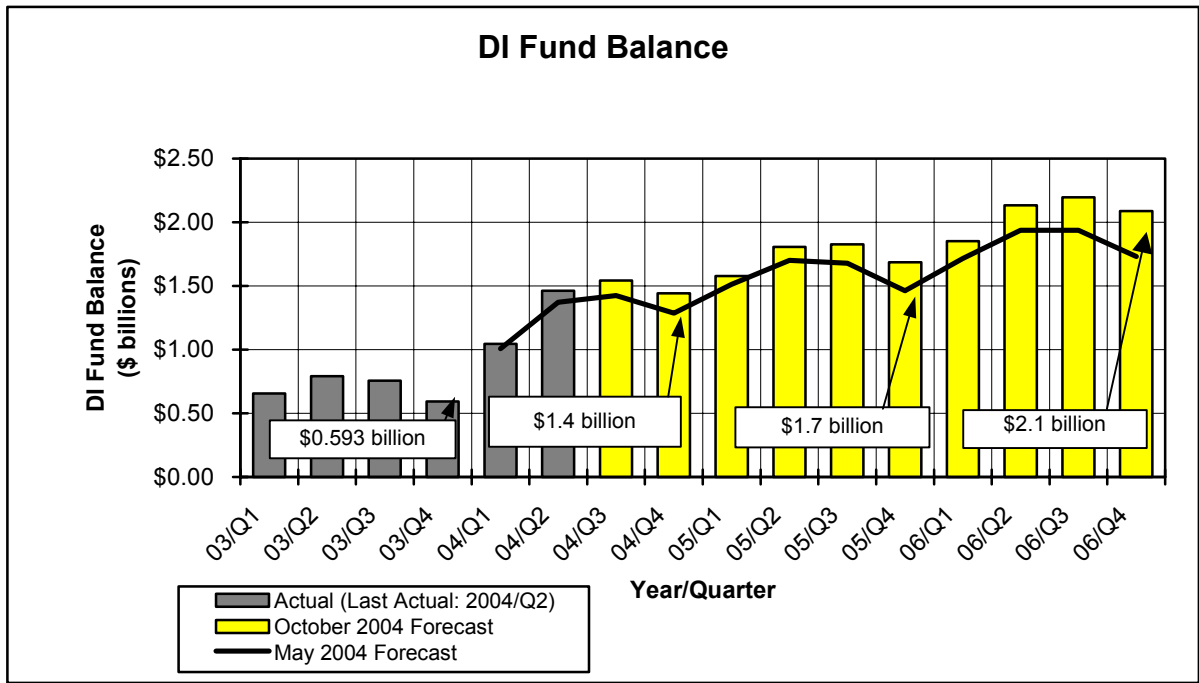
Senate Bill 1661 (Chapter 901, Statutes of 2002) created the Paid Family Leave (PFL) program within the existing DI program. California workers may take up to six weeks of paid leave each year to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new child. No other program within the United States provides this type of benefit.

The PFL legislation added a 0.08 percent surcharge to the DI contribution rate effective January 1, 2004 for the PFL program. This surcharge remains in effect through 2005. After that time the DI contribution rate for both regular DI and PFL will be calculated based upon the existing DI contribution rate formula specified in Section 984(a)(2) of the California Unemployment Insurance Code (CUIC).

Claims for PFL benefits were filed beginning July 1, 2004 and actual data from July and August 2004 were not sufficient to warrant a change in the methodology used in the May 2004 projection of PFL benefit payments. The estimates in this forecast for the number of PFL claims filed and benefit payments are based upon information contained in a report from the Commission on Family and Medical Leave entitled, "A Workable Balance: Report to Congress on Family and Medical Leave Policies". This report includes information on employees that took leave to care for an ill child, parent, spouse, or to bond with a child as allowed under the federal Family and Medical Leave Act. This is the only program with provisions similar to the PFL program. These PFL estimates will be updated in the May 2005 forecast when sufficient actual claim data becomes available.

Fund Balance

The DI Fund balance was \$1.5 billion at the end of June 2004. The DI Fund balance is projected to be \$1.4 billion at the end of Calendar Year (CY) 2004, \$1.7 billion at the end of CY 2005 and increase to \$2.1 billion at the end of CY 2006. The following chart shows the actual and projected quarterly DI fund balance from 2003 through 2006.



Net Benefits

Net benefits for 2003 were \$3.0 billion and are projected to increase to \$3.6 billion in 2004, \$4.2 billion in 2005, and \$4.3 billion in 2006. The projected increases for 2004, 2005, and 2006 are due to a combination of projected increases in the Average Weekly Benefit Amount (AWBA) and weeks compensated, and implementation of PFL benefits. The PFL program started accepting and processing new claims on July 1, 2004. PFL benefit payments are projected to be \$186.4 million in 2004 for the first six months of operation. PFL benefit payments are projected to be \$390.3 million for 2005, the first full year of operation for this program and \$408 million in 2006.

Net Benefits (continued)

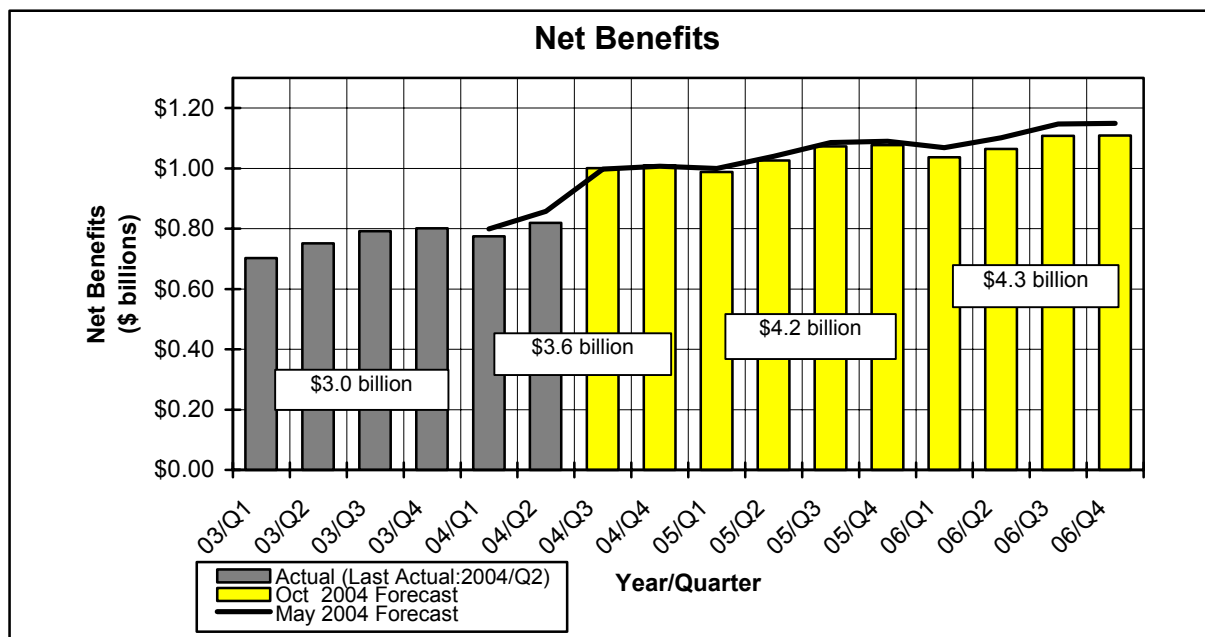
Assembly Bill 486 (Chapter 866, Statutes of 2002) increased the Maximum Weekly Benefit Amount (MWBA) from \$490 in 2002 to \$602 in 2003, \$728 in 2004, and \$840 in 2005. For injuries occurring on or after January 1, 2006, the MWBA is the greater of \$840 or the state average weekly wage for the 12 months ended March 31, 2005. The MWBA is estimated to be \$840 in 2006. Beginning January 1, 2007, the MWBA is increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year. The AWBA increases when the MWBA increases.

The following table compares the MWBA and AWBA for calendar years (CY) 1999 – 2006:

Year	MWBA	AWBA
1999	\$336	\$235.78
2000	490	268.61
2001	490	292.60
2002	490	302.51
2003	602	319.34
2004	728	351.99 (E)
2005	840	380.72 (E)
2006	840 (E)	389.23 (E)

(E) = Estimate

The following chart shows the actual and projected quarterly DI net benefits from 2003 through 2006, including PFL benefits in the last six months of 2004 through 2006. The estimates for PFL benefits are preliminary as this is a new program. These estimates will be reviewed and updated as actual data is received.



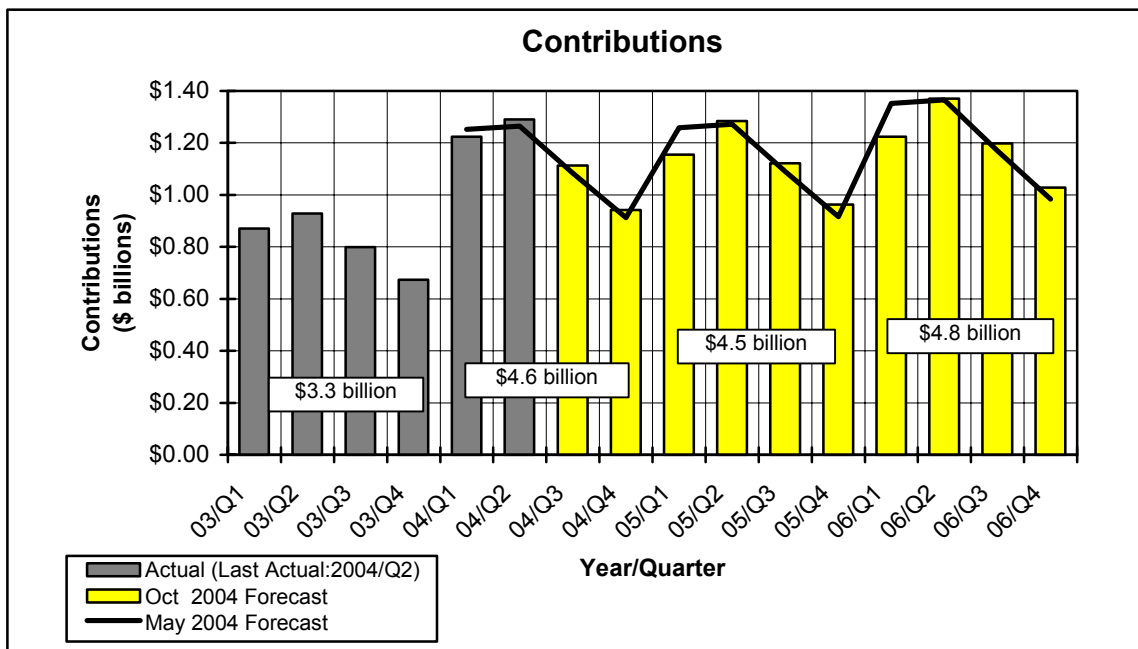
Contributions

The DI contributions for 2003 were \$3.3 billion and are projected to be \$4.6 billion in 2004, \$4.5 billion in 2005, and \$4.8 billion in 2006. Estimated contributions related to the PFL 0.08 percent surcharge are included in these amounts and are projected to be \$310 million in 2004 and \$335 million in 2005. The PFL surcharge ends in 2005.

The DI program taxes covered employees up to a ceiling set by Section 985 of the CUI. The taxable wage ceiling increases with each increase in the maximum weekly benefit amount. As a result, the taxable wage ceiling increased from \$46,327 in 2002 to \$56,916 in 2003, \$68,829 in 2004, and will increase to \$79,418 in 2005. The taxable wage ceiling is estimated to remain at \$79,418 in 2006. Beginning January 1, 2007, the maximum weekly benefit amount and taxable wage ceiling will be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

The DI contribution rate for CY 2005 is 1.08 percent. Based on the formula in Section 984(a)(2) of the CUI, the calculated DI contribution rate for CY 2005 is 0.9 percent. This calculated rate is increased by 0.08 percent per Section 984(a)(2)(B) of the CUI to cover the initial costs of the PFL program. The DI contribution rate for 2005 is also increased by 0.1 percent as allowed by Section 984(d) of the CUI.

The following chart shows the actual and projected quarterly contributions from 2003 through 2006.



APPENDIX

DISABILITY INSURANCE FUND FORECAST FOR
CALENDAR YEARS (CY) 2004-2006

Table 1
(Dollars in millions)

	2003	2004(F)	2005(F)	2006(F)
FUND SUMMARY				
End of CY Fund Balance	\$593.0	\$1,443.0	\$1,685.0	\$2,088.4
September 30 Fund Balance	\$757.4	\$1,542.8	\$1,827.3	\$2,197.0
FUND EVALUATION				
End of CY Fund Balance as a % of CY Disbursements	18.4%	37.9%	38.6%	46.2%
September 30 Fund Balance as a % of year ending September 30 Disburse- ments	24.1%	43.0%	42.5%	49.0%
RECEIPTS AND DISBURSEMENTS				
Receipts Less Disbursements	\$105.9	\$850.0	\$242.0	\$403.4
Total Receipts	\$3,320.5	\$4,654.3	\$4,604.2	\$4,918.9
Net Worker Contributions	\$3,271.2	\$4,569.9	\$4,523.3	\$4,831.8
Interest Income	\$14.9	\$23.0	\$34.9	\$41.4
Other Receipts	\$34.4	\$61.4	\$46.0	\$45.7
Total Disbursements	\$3,214.6	\$3,804.3	\$4,362.2	\$4,515.5
Net Benefits	\$3,046.4	\$3,605.3	\$4,163.9	\$4,317.2
Administration	\$168.2	\$199.0	\$198.3	\$198.3

(F) Forecast: Last actual data through June 2004.

CY: Calendar Year.

Note: Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND FORECAST FOR
CALENDAR YEARS 2004-2006
Table 2

Item	2003	2004(F)	2005(F)	2006(F)
STATE PLAN CLAIMS DATA (1)				
First Claims Paid (FCP)	670,363	763,500	778,500	791,500
Weeks Paid per FCP	14.93	15.09	14.94	14.91
Weekly Benefit Amount				
Maximum/Minimum	\$602/\$50	\$728/\$50	\$840/\$50	\$840/\$50
Average	\$319.34	\$351.99	\$380.72	\$389.23
COVERED EMPLOYMENT AND WAGES				
Total Average Covered Employment	12,491,320	12,736,000	12,940,600	13,250,900
Average Covered State Plan	12,054,200	12,273,300	12,482,400	12,794,000
Average Covered Voluntary Plan	437,120	462,700	458,200	456,900
Total Average Weekly Wage (2)	\$821.41	\$827.59	\$848.26	\$873.65
Average State Plan Wage (2)	\$782.39	\$798.39	\$824.92	\$850.19
Average Voluntary Plan Wage (2)	\$1,897.65	\$1,602.29	\$1,484.24	\$1,530.39
Total Covered Wages	\$535.6 (bil)	\$550.2 (bil)	\$573.0 (bil)	\$604.3 (bil)
Covered State Plan Wages	\$492.3 (bil)	\$511.5 (bil)	\$537.5 (bil)	\$567.8 (bil)
Covered Voluntary Plan Wages	\$43.3 (bil)	\$38.7 (bil)	\$35.5 (bil)	\$36.5 (bil)
State Plan Taxable Wages	\$370.0 (bil)	\$392.4 (bil)	\$426.3 (bil)	\$447.1 (bil)
TAX RATE	0.9% ⁽³⁾	1.18% ⁽⁴⁾	1.08% ⁽⁵⁾	1.10%
TAXABLE WAGE CEILING	\$56,916	\$68,829	\$79,418	\$79,418
UNEMPLOYMENT RATE (Civilian)	6.7%	6.3%	6.1%	5.9%

(F) Forecast: Last actual data for wages and employment through the fourth quarter of 2003.
Last actual data for other items through the second quarter of 2004.

(1) Does not include data for Paid Family Leave. Claim filing started July 1, 2004.

(2) The Average Weekly Wage is calculated using estimated Covered Wages divided by estimated Covered Employment divided by 52.2 (weeks per year).

(3) The calculated tax rate of 1.0% for 2003 was reduced to 0.9% per Section 984(d) of the CUIIC.

(4) The tax rate of 1.18% for 2004 includes a calculated rate of 1.1% plus 0.08% to cover the costs of the PFL program.

(5) The tax rate of 1.08% for 2005 includes a calculated rate of 0.9%, plus 0.08% to cover the costs of the PFL program,
plus 0.1 percent as allowed by Section 984(d) of the CUIIC.

Note: Components may not add to totals due to independent rounding.

(bil) = Amount in billions.

DISABILITY INSURANCE (DI) DEFINITIONS

The following definitions are informational only and arranged in order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

Total Receipts

Net Worker Contributions:

This amount represents total worker contributions, less refunds. For example, in 2003, total worker contributions are the amount collected as a result of employers withholding 0.9 percent of all wages for each employee, up to a maximum of \$512.24 (0.9 percent of \$56,916, the taxable wage ceiling). However, if an employee worked for more than one employer, the total withheld in 2003 may exceed \$512.24. The employee would then be eligible for a refund of the amount exceeding \$512.24. Refunds are claimed as a credit on the California personal income tax return. Individuals not required to file personal income tax returns may file for refunds with the Employment Development Department.

Interest Income:

This is interest earned on the State Treasurer's investment of DI funds. At any given time, about 99 percent of the DI Fund is invested. The total amount earned by such investments constitutes interest income.

Other Receipts:

Receipts from Voluntary Plan assessments constitute the largest portion of "other receipts." The Voluntary Plan assessment rate is 14 percent of the DI State Plan contribution rate. In 2003, with the State Plan tax rate at 0.9 percent, Voluntary Plan employers were assessed 0.00126 (14 percent of 0.009) of taxable wages. "Other receipts" also includes revenue from the sale of certain reports and the recycling of paper.

Total Disbursements

Net Benefits:

This is the amount of benefits paid less the amount of cancellations, refunds, or liens. Total benefits may be reduced for various reasons, including: death of claimants; repayment by claimants of benefits erroneously claimed; repayments to the DI Fund by other programs; and benefit checks not cashed.

Total Disbursements (cont.)

Administration:

All disbursements from the DI Fund that are not benefit payments fall into the administration category. This includes disbursements for salaries, equipment, supplies, rent, and utilities.

State Plan Claims Data

First Claims Paid:

These are the first benefit payments mailed to each claimant who has fulfilled non-monetary, monetary, and medical requirements and who has filed a claim certifying to the onset of a disability.

Weeks Paid Per First Claims Paid:

The average number of weeks benefits are paid for each first claim paid.

Weekly Benefit Amount:

This is the amount payable per week for the period of a disability. From 1984 through 1989, the minimum and maximum amounts were \$50 and \$224, respectively. The maximum was increased to \$266 in 1990, \$336 in 1991, \$490 in 2000, \$602 in 2003, \$728 in 2004, and will increase to \$840 in 2005 while the minimum remained unchanged at \$50.

For injuries occurring on or after January 1, 2006, the maximum weekly benefit amount is the greater of \$840 or the state average weekly wage for the 12 months ended March 31, 2005. The maximum weekly benefit amount is estimated to be \$840 in 2006. Beginning January 1, 2007, the maximum weekly benefit amount is increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

A table in Section 2655 (a) of the CUIA is used for calculating a claimant's weekly benefit amount (WBA) if the base period high quarter wages (HQP) do not exceed \$1,749.20. After January 1, 1990, if HQP exceeded that amount, a claimant's WBA is calculated by dividing 55 percent of the base period HQP by 13 ($(HQP \times 0.55) / 13$), not exceeding the maximum benefit amount.

Covered Employment and Wages

Average Covered Employment:

Employers count the number of employees on their payrolls during the week which includes the 12th day of the month. Quarterly and annual averages are taken from these counts. These averages are considered to represent “full-time” employment, and are smaller than the numbers of all persons who worked for employers during the same periods.

Average Weekly Wage:

To derive the average weekly wage, total wages are divided by covered employment, and the result is then divided by the number of 5-day work weeks in the period. The number of work weeks vary from 12.8 to 13.2 in a quarter and from 52.0 to 52.4 in a year.

Covered Wages:

Covered wages are wages earned by employees subject to the DI provisions defined in Part 2 of the CUIIC. Total covered wages include tips, commissions, bonuses, and the reasonable cash value of all remuneration payable to an employee in any medium other than cash.

Taxable Wages:

That portion of covered wages from which DI contributions are taken.

Tax Rate:

The rate at which workers' contributions are determined.

An ad hoc Advisory Committee, comprised of labor and employer representatives, worked with the Department and independent actuaries to develop an experience-based contribution formula that maintains a prudent reserve, reflects benefit costs, and avoids excessive volatility and instability. The formula recommended by the Advisory Committee was introduced to the Legislature and became law on September 29, 1986.

Tax Rate (cont):

The formula considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.45 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

The rate of worker contributions shall not exceed 1.5 percent or be less than 0.1 percent. The rate of worker contributions shall not decrease from the rate in the previous year by more than two-tenths of 1 percent. The Director may, at his or her discretion, increase or decrease, by not to exceed 0.1 percent, the rate of worker contributions determined by the above formula. However, with the passage of SB 727 (Chapter 797, Statutes of 2003), the Director's discretion to decrease the calculated DI contribution rate is suspended for CYs 2004, 2005 and 2006.

On September 23, 2002, the Governor signed Senate Bill (SB) 1661 (Chapter 901, Statutes of 2002). SB 1661 creates, within the SDI program, the Paid Family Leave (PFL) program that will provide up to six weeks of wage replacement benefits to workers who take time off work to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new child. To help fund this program, a surcharge of 0.08 percent will be added to the DI contribution rate for calendar years 2004 and 2005.

Taxable Wage Ceiling:

The upper ceiling of taxable wages. Section 985 of the CUIIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent
 $((4 \times \text{MWBA} \times 13) / .55)$

From 1991 through 1999 the taxable wage ceiling was \$31,767. From 2000 through 2002 the taxable wage ceiling was \$46,327. The taxable wage ceiling increased to \$56,916 in 2003, to \$68,829 in 2004, and will increase to \$79,418 in 2005. The taxable wage ceiling is estimated to remain at \$79,418 in 2006. Beginning January 1, 2007, the maximum weekly benefit amount and taxable wage ceiling will be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

Civilian Unemployment Rate:

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.